

m/001/027



December 18, 2003

D. Wayne Hedberg
Permit Supervisor
Division of Oil, Gas and Mining
State of Utah
1594 West North Temple, Suite 1210
P.O. Box 145801
Salt Lake City, Utah 84114-5801

VIA FAX (801) 359-3940

Dear Wayne:

Basin Perlite Company ("Basin") in confirming the current Kemper bond of \$133,600 for the Pearl Queen Perlite Mine, M/001/027, will not be renewed by Kemper with a February 26, 2004 cancellation date. Kemper claims they are exiting the bonding business.

As we discussed on December 11, 2003 Basin has investigated alternative bonding companies but to date the only response we have had is to provide the a full amount of the bond as cash or have our principal shareholder Resource Capital Fund provide a financial guarantee. Neither of those alternatives are acceptable. In the case of putting up the full amount of the surety, it is less costly to set up a full surety with the State of Utah as opposed to paying a bonding company a fee to do the same thing. In the case of a RCF guarantee, they are not willing to take on the additional risk of guaranteeing a bond of any amount.

Consequently, Basin would like to make the following proposal to the Division to modify the RECLAMATION CONTRACT. Basin will make a second payment by February 15, 2004 of \$40,080 to the Certificate of Deposit established recently with Wells Fargo Bank. The total amount of the C.D. would then be \$66,800 or 50% of the total amount required under the current RECLAMATION CONTRACT. Starting May 15, 2004 and for each quarter of the calendar year thereafter, Basin would pay \$8,350 per quarter until the full amount of the total surety reaches \$133,600, approximately May 15, 2006. As the CD interest is accruing to the account of the Surety, some adjustment may be possible in the last quarterly payment. We are requesting this modification because of the Basin continued cash requirements and the difference between replacing the balance of the surety (\$106,880) and the proposed February 15, 2004 payment of \$40,080.

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DIV. OF OIL, GAS & MINING

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2160 Republic Plaza - 370 17th Street
Denver, Colorado 80202
(720) 904-1900 (720) 904-1904 Fax

P.O. Box 490, 533 S. Industrial Loop Rd.
Milford, Utah 84751
(435) 387-2100 (435) 387-2403 Fax

Based on our mining operation, we anticipate that between December 2003 and May 2006, we will not exceed 75% of the permitted disturbed area of the Pearl Queen Perlite Mine.

Please review this alternative approach and advise me as soon as possible as to its acceptability by the Division. We are aware of the deadline required by the cancellation by Kemper effective February 26, 2004.

Very truly yours,

A handwritten signature in black ink, appearing to read "William R. Wilson". The signature is stylized with a large initial "W" and a trailing flourish.

William R. Wilson, President
Basin Perlite Company

CC: Tim Hall, Basin Perlite Company
Jay Gatten